



Shared Challenges of Internal Services Zero-Based Review Summary Report

Internal Recoveries Opportunity

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Internal Recoveries Zero-Based Review – Benefits at a Glance

Cost Savings 
 +
Productivity Gains 
\$550K - \$2.2M
 Annually

Through Reduced
Administrative Burden

- Reduced staff- time spent on**
- Processing transactions
 - Reconciling charges
 - Monitoring discrepancies
 - 1:1 Negotiations
 - Issue resolution
 - Redundant processes and tools
 - Reporting

**Cost Savings
and
Productivity
Gains will be
further
estimated in
the next phase**

Indirect Benefits 

- Advancing "One Calgary" thinking
- Operational insights → better decision making
- Optimal budget and resource allocation
- Improved employee experience
- Strategic Provider-Customer discussions
- Improved Service-value for Citizens

Consultant Recommendations to achieve these Benefits	
<p>1. Internal Service Funding Structure: Transition to an "Internal Recoveries Reduction Model"</p> <ul style="list-style-type: none"> a. Establish a Board to provide oversight and governance to the future b. Integrate the Model into Budget and Planning practices 	<p>2. Criteria for Chargeback Mechanisms Use</p> <ul style="list-style-type: none"> a. Assign a dedicated working group to develop an Enabling services catalogue b. Ensure the Board has the authority to implement changes c. The centralization and coordination of specific financial functions
<p>3. Create a detailed Implementation Plan</p> <ul style="list-style-type: none"> a. Assign dedicated resources 	

Administration's Commitments¹

Administration's Commitments	Actions and Next Steps
1. Internal Service Funding Structure: Transition to an "Internal Recoveries Reduction Model"	
<ul style="list-style-type: none">a. Establish a Board to provide oversight and governance to the futureb. Integrate the Model into Budget and Planning practices	<ul style="list-style-type: none">i. Create a governance structure with appropriate representationii. Provide necessary mandate and authority
2. Criteria for Chargeback Mechanisms	
<ul style="list-style-type: none">a. Assign a dedicated working group to develop an Enabling services catalogueb. Ensure the Board has the authority to implement changesc. The centralization and coordination of specific financial functions	<ul style="list-style-type: none">i. Develop internal services' cataloguesii. Categorize service offeringsiii. Optimize base budget allocation and related levels of service to achieve best overall support for frontline servicesiv. Finalize mechanisms types, rates etc. for Incremental and Specialized service categoriesv. Create centralized processes, tools, and standards for administration, reporting and governance
3. Create a detailed Implementation Plan	
<ul style="list-style-type: none">a. Assign dedicated resources	<ul style="list-style-type: none">i. Finalize project team compositionii. Identify broader resourcing needs from other business unitsiii. Identify funding source for implementation costs

¹ Based on recommendations from the external consultant supporting this work, Grant Thornton.
PFC2020-0035 Attachment 4
ISC: Unrestricted

Internal Recoveries Overview

In line with the ZBR approach, the Shared Challenges of the Internal Services ZBR was approved as a new ZBR topic by the ALT (ALT2017-1058) in 2018 with the direction to pursue the first two cross-organization opportunities: Internal Services' Role and Mandate, and Internal Recoveries. The Zero-Based Review (ZBR) program initiated work in the fall of 2018 to determine the circumstances and methodologies by which internal recoveries can better support the strategic and financial goals of The City.

In general, internal recoveries, or chargebacks, are utilized by organizations to recover expenses from one business unit to another. Internal recoveries are used to achieve many outcomes, which include, but are not limited to:

- Managing demand for good and services;
- Developing an understanding of true cost of service;
- Managing source of funds that pay for a particular service;
- Balancing business unit / service line budgets; and
- Resource forecasting.

Why look at Internal Recoveries

- Recoveries represent about 18% of The City's gross operating expenditure (2008 - 2018), estimated at over \$550M annually (2018).
- The amount of funds moving between business units annually is increasing.
- The cost to track and administer recoveries could be as high as \$5M annually (approximately one per cent of total amount transferred, based on analysis of twelve business unit case studies).

An external consultant, Grant Thornton, was engaged to support the Internal Recoveries ZBR. The consultant conducted a current state assessment and highlighted many challenges, including systemic challenges beyond the scope of internal recoveries.

In addition, the consultant identified improvement opportunities in many areas of the internal recovery ecosystem at The City. Many of these opportunities, once implemented, will generate efficiencies that would result in both cost savings and productivity gains. One such identified opportunity is reducing the internal recoveries administrative burden that exists across Provider and Customer business units at The City. A high-level Class 5 estimate is that between \$550K and \$2.2M per year in efficiencies is available. More work will be needed in the implementation planning phase of the project to arrive at a definitive estimate. Additionally, indirect benefits such as greater transparency, accountability, equitability, and measurability are expected.

The proposed changes to internal recoveries provide an opportunity for The City to realize broader long-term benefits including: further progress in breaking down organizational silos, centralizing decision-making for the greater good of the Corporation, and enabling a culture of cross-corporate collaboration.

Due to the cross-corporate nature of the project, no one business unit could take on the implementation work. Hence, this phase will be led by the Corporate Initiatives team and overseen by the Service Leaders Forum (SLF).

What Can We Learn from the Outside?

External Benchmarking

External benchmarking compared different methods utilized by comparable organizations to assess the accompanying benefits and challenges. The exercise included four municipal participants (the Cities of Edmonton, Ottawa, Regina, and Saskatoon), a semi-private utility company (ENMAX) and a provincial government entity (Alberta Transportation).

The full spectrum of internal recoveries models as identified through the benchmarking survey are:

1. **100% Corporate Funding Model** – no internal recoveries; use of central funding pools.
2. **Internal Recovery Reduction Model** – preference for corporate funding for core/enabling services, while additional services are recovered for.
3. **Mixed Recovery Model** - base level of funding for some centralized, internal services; recoveries used where deemed appropriate. This is the model currently adopted by City of Calgary and the municipalities in the benchmarking exercise.
4. **Internal Recovery Expansion Model** - greater autonomy and reduction of Corporate funding to favour recoveries for Business Units.
5. **Full Cost Recovery Model** - funding for all services are supported through internal recoveries.

It was discovered that, similar to the City of Calgary, the surveyed municipalities also adopt the the mixed recovery model approach whereby internal services are cost-recovered for at varying degrees as illustrated in the image below:



Benchmarking Survey Findings

Challenges associated with developing, administering, and governing internal recovery processes were common among all participants surveyed. Key observations from the benchmarking analysis are listed below:

1. The absence of guiding principles and structured methodologies regarding internal chargeback mechanisms were consistently cited as the root cause of a number of challenges;
2. Revenue generating business units (i.e. utilities) are charged differently by the majority of participants;
3. A balance between the demand management and control of a service through internal recoveries as compared to the accessibility and requirement to use the service is required;
4. A lack of communication, consultation, and shared reporting systems between business units frequently limited the effectiveness of chargeback mechanisms;
5. The administrative burden to accurately document inter-business unit transactions is resource-intensive, complicated, and time-consuming; and
6. Organizational structure directly influences the effectiveness of internal chargeback mechanisms

Implementation Roadmap

Grant Thornton developed a three-year implementation roadmap based on the recommendations they provided, timelines and the expected resulting value. The estimated associated costs and resource requirements as provided by Grant Thornton are as follows:

- \$384K - \$1.15M over a three-year period, including:
 - 1 - 3 full time project staff (PMO);
- Additional external consultant support, as required;
- Additional business unit resources, as required.

Class 5 benefits estimates by the consultant

Information gaps and challenges were uncovered during the review. This, combined with the early stage of the implementation, make it difficult to arrive at a narrow range of financial benefits resulting from the transition to the recommended future state model. A class 5 estimate of \$550K – \$2.2M was recommended by Grant Thornton as potential efficiencies through reduced administrative burden associated with internal recoveries. This estimate consists of Cost Savings and Productivity Gains as outlined below:

- **Cost Savings** – resulting from reduced burden in administering and reporting Internal Recoveries;
- **Productivity Gains** – resulting from reduced staff time spent on monitoring and reconciling charges, one to one negotiations and issue resolution between provider and customer management teams, as well as through removed redundant processes and tools.

Further work will be carried out during the implementation planning phase to estimate how much of the identified efficiencies (\$550K - \$2.2M) could be realized in cost savings vs productivity gains.

In addition, Grant Thornton highlighted a number of additional indirect benefits.

- **Indirect Benefits** – broader long-term benefits including further progress in building a culture of cross-corporate collaboration and centralized decision making for the greater good of the Corporation leading to enhanced service value for the citizens and customers.

As the implementation phase of the project progresses, periodic updates will be provided to the Priorities and Finance Committee of Council as a part of regular ZBR Program updates.